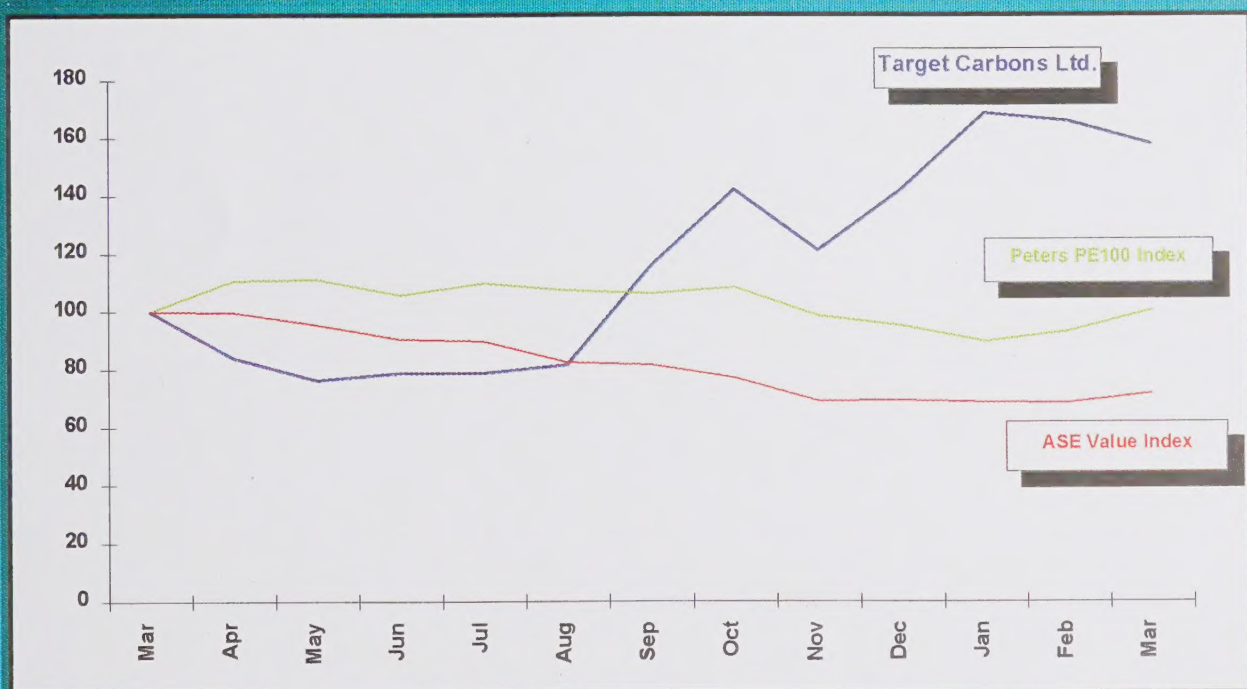


TARGET CARBONS LTD.

1995 ANNUAL REPORT

Our single goal for the year was
to outperform the industry.

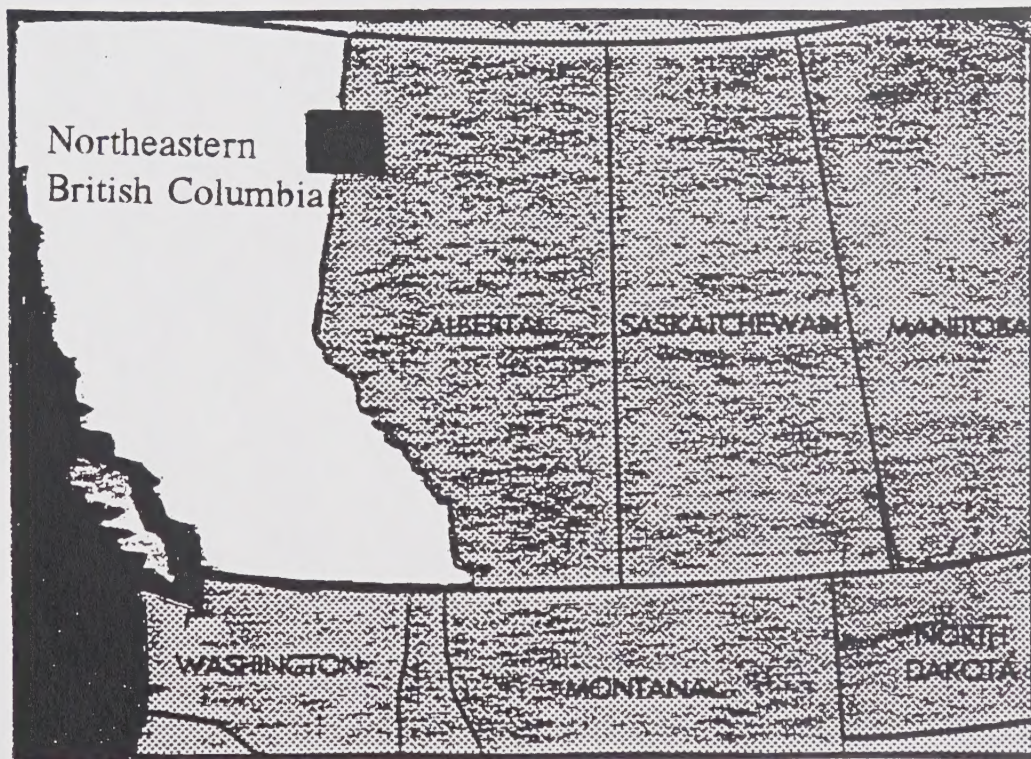


WE SUCCEEDED!



TARGET CARBONS LTD.

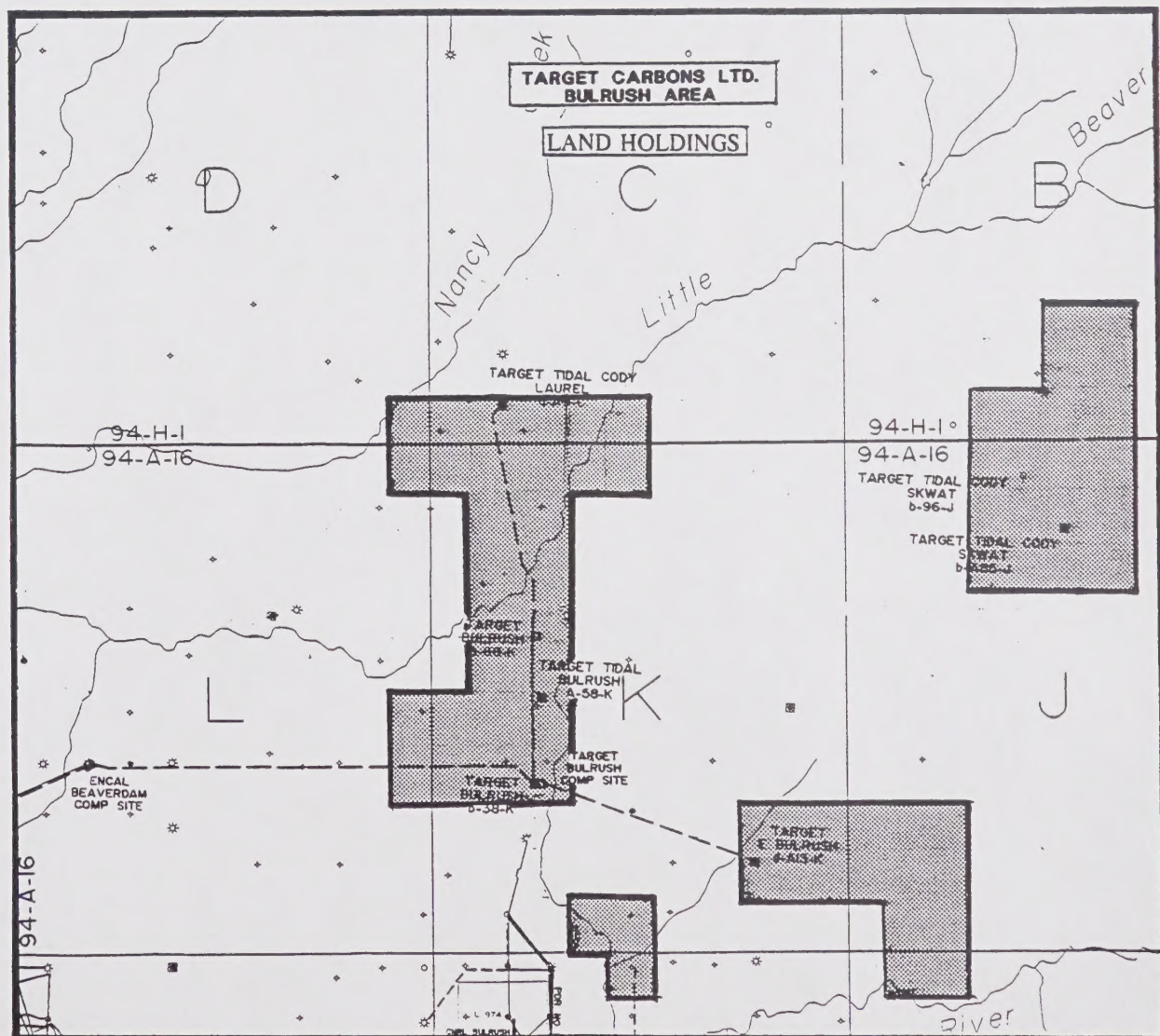
Our company is active in exploration and development in British Columbia.





TARGET CARBONS LTD.

We are very active in the Bulrush area of North Eastern British Columbia. We plan to increase our presence in this area. We have a minimum of four new drilling locations for this winter.





TARGET CARBONS LTD.


Operations

The Company prefers to operate its drilling prospects. Our exploration program is the responsibility of Gerry O'Reilly, Vice-President, Exploration. Gerry is a major shareholder in the Company and is the driving force behind the Company's most recent successes. He is assisted by a junior geologist.

The Company has three consulting engineers on staff. Bob Emmett heads the facilities and completions. Allan Anderson, assisted by Dave Curial, looks after the drilling operations.

Minaz Kassam, Vice-President, Finance, has had his hands full this year as the Company moved from non-operator to operator. He has done an excellent job of helping the Company make the transition.

Kathleen Keillor, Vice-President and founding shareholder, is responsible for administrative, regulatory, and shareholder relations.



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TARGET CARBONS LTD.

The Company is involved in managing other private companies' exploration programs. The Company currently has management agreements with:

Dart Energy Inc. (ASE)
Target Carbons "19" Inc.
Target Carbons "20" Inc.
Target Carbons "21" Inc.
Target Carbons "22" Inc.
Target Carbons "23" Inc.
Target Carbons "24" Inc.
Target Carbons "25" Inc.

The Company earns carried working interests and prospect fees through its management contracts. By having built-in partners, the Company is in a position to be involved in larger prospects than most companies its size.

We are obligated through our management agreements to let Dart Energy Inc. and at least one private company participate in the acquisition of mineral rights. Target Carbons Ltd. is compensated for allowing these companies to participate. Dart Energy Inc. pays 20% of all costs to earn 16% of all revenues. The private company is paying 40% of the land and seismic costs to acquire a 20% interest. Because of the additional revenue generated by these management fees, the Company can be quite aggressive in its mineral lease purchases.



TARGET CARBONS LTD.

Financial Statements

The 1995 Financial statements do not show our recent success.

Our proven producing reserves in the Bulrush/Skwat area, as estimated by an independent engineering firm, had an estimated pre-tax value discounted at 15% of six million dollars. Producing and proven reserves had an estimated pre-tax value discounted at 15% of nine million dollars.

On July 14, 1995, the Company acquired additional working interests in producing and non producing interests in Bulrush, British Columbia. This acquisition will bring Target's average working interest in the area to 55%. The Company estimates that it's cash flow from existing production (including the acquisition) will increase to \$3,500,000 or 17 cents/per share.

The financial statements for the period ending March 31, 1995 show our assets at cost and do not reflect the value added from our successful exploration program.

The financial statements do not reflect our success, but they adequately address our losses. Our original focus area at the outset of operations was in the Nestow area. The cash flow from this area was very significant to us in our early stages of development. Revenues had significantly decreased from these properties and they no longer fit into our strategy.



TARGET CARBONS LTD.

The properties were sold at a book loss of \$509,713. Also in 1995, the Company sold its interest in the Mitsue properties for a gain of \$90,970.

Our entire year was devoted to developing a land position in B.C. and having some identifiable success. Our engineers did a terrific job of getting our wells tied in and on stream. We negotiated a very good long term gas purchase contract. We began production in April 1995 and so our revenue picture for the year ending March 31, 1995 does not show the onset of this revenue from production.

Share Price

The share price on March 31, 1994 was 17 cents. The share price on March 31, 1995 was 30 cents. An increase of 76%.

We do not think our winter drilling success or our recent acquisition has been fully reflected in our share price yet. We are optimistic that the market will look favourably on our stock as our much more impressive revenue numbers become available.

The Company continues to be committed to paying out one third (1/3) of its cash flow in dividends.



TARGET CARBONS LTD.

We are different than most oil & gas companies in that we pay dividends.

Dividend Paid

Date:	June 1992	1 cent/10 shares
Date:	December 1992	3 cents/10 shares
Date:	June 1993	2 1/2 cents/10 shares
Date:	December 1993	2 cents/10 shares
Date:	June 1994	3 cents/10 shares
Date:	March 31, 1995	No dividend. Cash flow was negative due to extensive capital costs associated with our exploration program.

Note: Dividend determination dates have now been changed to coincide with fiscal 1/2 year and year end financial statement. New dividend determination dates are September 30 and March 31. Dividends, if declared, are usually payable within 60 days.



TARGET CARBONS LTD.

Our basic exploration concept is to drill prospects that have a reasonable expectation of being tied in and producing marketable hydrocarbons within 12 months of completion.

We are committed to oil or gas exploration. Currently, all our significant assets are gas producing.

The Company's basic objective is to pay 10% of the overall well costs to earn 32% after payout. We achieve this objective by promoting those companies that we have management agreements with and by promoting industry partners.

Major Goals for Year Ending March 31, 1996

Our overall goal for the year ending March 31, 1996 is to reduce our debt and again prove that we can outperform the industry.

AUDITORS' REPORT

To the Shareholders of
Target Carbons Ltd.

I have audited the consolidated balance sheet of **Target Carbons Ltd.** as at March 31, 1995 and 1994 and the consolidated statements of loss and deficit and changes in cash resources for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.


Calgary, Alberta
July 25, 1995



Chartered Accountant

Target Carbons Ltd.
Consolidated Balance Sheet
As at March 31, 1995

	<u>1995</u>	<u>1994</u>
ASSETS		
CURRENT		
Cash	\$ -	81,408
Accounts receivable	4,698,310	309,324
Prepaid expenses and deposits	7,500	545
Loans receivable (Note 2)	<u>1,796,585</u>	<u>338,350</u>
	6,502,395	729,627
INVESTMENTS (Note 3)	409,855	761,285
PETROLEUM AND NATURAL GAS PROPERTIES (Note 4)	3,360,189	1,353,659
LOANS RECEIVABLE (Note 2)	<u>100,000</u>	<u>135,900</u>
	<u>\$10,372,439</u>	<u>2,980,471</u>
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 142,171	-
Accounts payable and accrued liabilities	7,840,286	299,133
Loans payable (Note 5)	<u>-</u>	<u>392,049</u>
	7,982,457	691,182
DEFERRED TAXES	34,575	34,575
BOND PAYABLE (Note 6)	100,000	100,000
LOAN PAYABLE (Note 5)	<u>393,300</u>	<u>376,000</u>
	<u>8,510,332</u>	<u>1,201,757</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 7)	2,371,186	1,875,188
DEFICIT	<u>(509,079)</u>	<u>(96,474)</u>
	<u>1,862,107</u>	<u>1,778,714</u>
	<u>\$10,372,439</u>	<u>2,980,471</u>

ON BEHALF OF THE BOARD:

, Director

, Director

Target Carbons Ltd.
Consolidated Statement of Loss and Deficit
For the year ended March 31, 1995

	<u>1995</u>	<u>1994</u>
Revenue		
Prospect fee income	\$ 359,540	—
Petroleum and natural gas sales	177,758	327,102
Operator's income	144,109	—
Management fees	39,015	33,900
Investment income	<u>28,451</u>	<u>55,734</u>
	<u>748,873</u>	<u>416,736</u>
EXPENSES		
Production expenses	52,578	73,208
Depletion and depreciation	52,611	103,874
General and administration (Note 8)	266,475	131,946
Interest	<u>55,027</u>	<u>35,867</u>
	<u>426,691</u>	<u>344,895</u>
NET INCOME BEFORE THE FOLLOWING	322,182	71,841
Loss on sale of petroleum and natural gas properties	(418,743)	—
Share of income on equity investment	38,155	33,151
Write down of value of investment (Note 3)	<u>(301,349)</u>	<u>(85,995)</u>
NET (LOSS) INCOME BEFORE TAX	(359,755)	18,997
Provision for income taxes	<u>—</u>	<u>(8,200)</u>
NET (LOSS) INCOME FOR THE YEAR	(359,755)	10,797
DEFICIT, beginning of year	(96,474)	(33,562)
Dividends	<u>(52,850)</u>	<u>(73,709)</u>
DEFICIT, end of year	<u><u>\$(509,079)</u></u>	<u><u>(96,474)</u></u>

Target Carbons Ltd.
Consolidated Statement of Changes in Cash Resources
For the year ended March 31, 1995

	<u>1995</u>	<u>1994</u>
OPERATING ACTIVITIES		
Net (loss) income	\$(359,755)	10,797
Adjustments for items not requiring cash		
Depletion and depreciation	52,611	103,874
Deferred tax	—	8,200
Write down of investment	301,349	85,995
Loss on sale of petroleum and natural gas properties	418,743	—
Share of income on equity investments	<u>(38,155)</u>	<u>(33,151)</u>
	374,793	175,715
Changes in non-cash working capital components		
Accounts receivable	(4,388,986)	(123,828)
Inventory	—	1,083
Prepaid expenses and deposits	(6,955)	544
Accounts payable	<u>7,541,153</u>	<u>150,164</u>
Cash provided by operating activities	<u>3,520,005</u>	<u>203,678</u>
FINANCING ACTIVITIES		
Capital stock (net of deferred taxes)	495,998	581,955
Loan payable	<u>(374,749)</u>	<u>710,749</u>
Cash provided by financing activities	<u>121,249</u>	<u>1,292,704</u>
INVESTING ACTIVITIES		
Petroleum and natural gas properties	(2,477,884)	(902,963)
Investments	88,236	(193,956)
Loan receivable - advances	(1,422,335)	(282,368)
Dividends	<u>(52,850)</u>	<u>(73,709)</u>
Cash provided (used) by investing activities	<u>(3,864,833)</u>	<u>(1,452,996)</u>
NET (DECREASE) INCREASE DURING THE YEAR	(223,579)	43,386
CASH, BEGINNING OF YEAR	<u>81,408</u>	<u>38,022</u>
(BANK INDEBTEDNESS) CASH, END OF YEAR	<u><u>\$ (142,171)</u></u>	<u><u>81,408</u></u>

Target Carbons Ltd.
Notes to Consolidated Financial Statements
March 31, 1995

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for its exploration and development costs. The initial acquisition costs of petroleum and natural gas properties, geological and geophysical costs and the costs of drilling and equipping wells are capitalized. It does not capitalize interest related to exploration and development activities.

Gains or losses are recognized upon the sale of properties only when crediting the proceeds from sales to cost would result in a change of 20% or more in the depletion rate.

b) Depletion and Depreciation

Tangible equipment, oil and gas properties and intangibles are depleted on the unit of production method, based on proven reserves of oil and gas as determined by independent engineers and management's estimates. In calculating depletion, gross proven reserves (before royalties) are used.

c) Ceiling Limitations

The net carrying value of the Company's oil and gas properties is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proven reserves and the costs of unproven properties net of impairment allowance, less future operating costs, less royalties, applicable general and administrative expenses, interest and income taxes. Future net revenues are estimated using year end prices.

d) Joint Interest Operation

Substantially all exploration, development and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the corporation's proportionate interest in such activities.

e) Investments

The financial statements include the results of operations of the Company's wholly owned subsidiary, Target Loans Inc.

Investments in Target Carbons "6" Inc., Target Carbons "7" Inc., Target Carbons "8" Inc., Target Carbon "10" Inc., Target Carbons "16" Inc., Target Carbons "17" Inc., are recorded on the equity basis.

All other investments are recorded at the lower of cost or net realizable value.

Target Carbons Ltd.
Notes to Consolidated Financial Statements
March 31, 1995

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Deferred Income taxes

The Company follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred in respect of capital cost allowance claimed for income tax purposes in excess of depreciation and exploration and development expenditures charged to operations.

Income tax legislation also permits the flow through to shareholders of income tax deductions relating to certain petroleum and natural gas expenditures. This gives rise to a deferred tax liability of the Company which has been deducted from the proceeds of capital stock and from the petroleum and natural gas properties.

NOTE 2 LOANS RECEIVABLE

The loans receivable consist of the following:

	<u>1995</u>	<u>1994</u>
Shareholder advance with no interest or fixed terms of repayment	\$ -	\$ 27,350
KMC Capital Inc. (A related party)		
• The loan bears interest at 3% per annum and has no fixed terms of repayment.	1,400,785	-
• The loan bears interest at rates ranging between 9% per annum to 11% per annum and is due upon 90 days notice after December 31, 1996.	395,800	346,900
Capital Loans Inc.		
• Interest at prime plus 1 1/2% per annum. Principal is due upon 60 days notice after April 1998.	<u>100,000</u>	<u>100,000</u>
	1,896,585	474,250
Less current portion	<u>(1,796,585)</u>	<u>(338,350)</u>
	<u>100,000</u>	<u>135,900</u>

Target Carbons Ltd.
Notes to Consolidated Financial Statements
March 31, 1995

NOTE 3 INVESTMENTS

The Company owns the shares of certain private and public corporations, as follows:

<u>Investments</u>	<u>Percentage Interest</u>	<u>Value 1995</u>	<u>Value 1994</u>
Target Carbons "6" Inc.	49%	37,632	122,291
Target Carbons "7" Inc.	23%	7,679	60,000
Target Carbons "8" Inc.	29%	81,768	71,191
Target Carbons "10" Inc.	31%	3,334	77,922
Target Carbons "16" Inc.	25%	30,000	74,001
Target Carbons "17" Inc.	26%	3,250	98,702
Target Carbons "18" Inc.	17%	30,000	30,000
371106 Alberta Ltd.	20%	—	27,178
Dart Energy Inc.		16,192	—
Capital Loans Inc.		<u>200,000</u>	<u>200,000</u>
		<u>\$409,855</u>	<u>\$761,285</u>

During the current year, the company decreased the carrying value of certain investments to net realizable value.

NOTE 4 PETROLEUM AND NATURAL GAS PROPERTIES

	<u>1995</u>		<u>1994</u>
	Accumulated Depletion and		
	<u>Cost</u>	<u>Amortization</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	<u>\$3,583,764</u>	<u>223,575</u>	<u>3,360,189</u>
			<u>1,353,659</u>

Target Carbons Ltd.
Notes to Consolidated Financial Statements
March 31, 1995

NOTE 5 LOAN PAYABLE

	<u>1995</u>	<u>1994</u>
K.M.C. Capital Inc. (a related party)		
• The loan bears interest at 10% per annum and has no fixed terms of repayment	\$ -	\$392,049
Various individuals		
• The loans bear interest at prime plus 1 1/2% per annum and are repayable upon 90 days notice after December 30, 1996	-	49,000
• The loans bear interest at rates ranging between 9% per annum to 11% per annum and are repayable upon 90 days notice after December 31, 1996.	<u>393,300</u>	<u>327,000</u>
	393,300	768,049
Less current portion	<u>-</u>	<u>392,049</u>
	<u>\$393,300</u>	<u>\$376,000</u>

NOTE 6 BOND PAYABLE

The unsecured bond is payable upon 60 days notice after April 30, 1998. Interest is at Royal Bank of Canada prime interest rate plus one and one half percent per annum from April 30, 1995.

NOTE 7 CAPITAL STOCK

The company is incorporated under the jurisdiction of the Alberta Business Corporation Act.

AUTHORIZED CAPITAL

Class A common voting shares; and
Class B common non-voting shares; and
One Series 1A Preferred share non-voting retractable March 31, 1995
One Series 1B Preferred share non-voting retractable April 30, 1995
with annual dividend at Royal Bank of Canada prime plus one and one-half percent.

Target Carbons Ltd.
Notes to Consolidated Financial Statements
March 31, 1995

NOTE 7 CAPITAL STOCK (Continued)

	<u>Shares</u>	<u>Amount</u>
Balance, March 31, 1994	17,616,637	\$1,675,188
Issued for cash	2,088,284	562,760
Issued in exchange for 100% of the net assets of Target Carbons "9" Inc. and Target Carbons "6" Inc.	<u>510,000</u>	<u>163,200</u>
Balance, end of year	<u>20,214,921</u>	<u>2,401,148</u>
Non-voting preferred shares issued in exchange for two hundred preferred shares redeemable at \$1,000 per share of Capital Loans Inc.	<u>200</u>	<u>200,000</u>
		2,601,148
Less flow through share benefits renounced		<u>(229,962)</u>
Balance, March 31, 1995		<u>\$2,371,186</u>

Options to purchase common shares of the company have been granted to certain officers. Under the Stock Option Plan, 1,370,000 Class A shares are exercisable at between \$.10 - \$.25 per share. These options are exercisable on a cumulative basis over a five year period and expire at various dates to November 18, 1999.

NOTE 8 GENERAL AND ADMINISTRATIVE EXPENSES

The general and administration expenses incurred during the year are as follows:

	<u>1995</u>	<u>1994</u>
Filing fees	\$ 3,665	5,900
Insurance	10,320	375
Management and consulting fees	179,203	59,040
Office	17,093	11,967
Professional fees	16,050	15,395
Rent	13,790	11,435
Technical services	15,170	20,373
Transfer fees	<u>11,184</u>	<u>7,461</u>
	<u>\$266,475</u>	<u>\$ 131,946</u>

Target Carbons Ltd.
Notes to Consolidated Financial Statements
March 31, 1995

NOTE 9 RELATED PARTY TRANSACTIONS

The Company paid management and consulting fees totalling \$161,933 to related parties during the year. In addition, the Company received management fees totalling \$39,015 from related parties during the year.

NOTE 10 PER SHARE INFORMATION

	<u>1995</u>	<u>1994</u>
Net (loss) earnings per common share	\$(0.0197)	\$.0006

Per share information was calculated based upon the weighted average number of shares outstanding during the year. The dilutive effect of the stock options is not material.

NOTE 11 INCOME TAXES

At March 31, 1995 the company had approximately \$2,328,157 of resource tax deductions available to be applied against future income for income tax purposes. In addition, non capital losses of \$80,385 are available to be applied against income for income tax purposes. The non capital losses expire between 1996 and the year 2003. The company also has available net capital losses of \$143,577 which can be applied indefinitely against future capital gains.

NOTE 12 SUBSEQUENT EVENTS

On July 14, 1995, the Company purchased additional working interests in producing and non-producing interests in Bulrush, British Columbia for \$2,461,000.

The Company has also secured a demand revolving loan of \$3,000,000. Principal payments are \$300,000 per month for the first five months beginning September 1, 1995, and then \$200,000 per month. Interest is charged monthly at bank prime plus 1 & 1/4 %. The loan is secured by a general security agreement and a fixed and floating debenture covering the Bulrush, British Columbia properties.

NOTE 13 COMPARATIVE FIGURES

Certain of the previous years figures have been reclassified to conform to the presentation adopted during the current year.



TARGET CARBONS LTD.

Management's Report

The Financial Statements and all other information presented in the Annual Report have been prepared by the Company's management. The Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements based on currently available information. The Company's internal controls have been designed and maintained by management to provide reasonable assurance that assets are properly safeguarded and that the financial information is accurate and reliable.

Mr. Ian MacKichan, Chartered Accountant, has been appointed by shareholders to examine the Financial Statements and to report to shareholders. The Audit Committee of the Board of Directors, with two of the three members not officers of the Company, has met with management to review the scope and result of the annual audit and to determine if management has fulfilled its responsibilities for the preparation of the Financial Statements. The Audit Committee has reported its findings to the Board of Directors who have approved the Financial Statements.

Richard K. Skauge
President
July 26, 1995



TARGET CARBONS LTD.

Corporate Information

Directors & Officers

Richard K. Skaug
President, Director
Major Shareholder

Kathy Keillor
Vice-President, Director

Gerry O'Reilly, P.Geol.
Vice-President, Exploration
Major Shareholder

Minaz Kassam, C.A.
Chief Financial Officer, Director

Tom Robinson, LLB
Director

Dawn Henderson
Director

Corporate Office

Suite 320, 1035 - 7th Ave. SW
Calgary, Alberta
T2P 3E9

Telephone: (403) 232-8955
Facsimile: (403) 265-1455

Annual General Meeting

The Annual General Meeting of the shareholders will be held on September 21, 1995 at 10 am at the Lord Nelson Inn (1020 - 8th Ave. SW, Calgary, Alberta).

Legal Counsel

Ballem McDill MacInnes Eden
400 Petro Canada Centre
West Tower
150 - 6th Avenue S.W.
Calgary, Alberta T2P 3Y7

Banking

Canadian Western Bank
441 - 5th Avenue S.W.
Calgary, Alberta T2P 2V1

Auditors

Mr. Ian MacKichan, C.A.
600, 1015 - 4th Street S.W.
Calgary, Alberta T2R 1J4

Registrar & Transfer Agent

Montreal Trust Company of Canada
411 - 8th Avenue S.W.
Calgary, Alberta T2P 1E7

Stock Exchange Listing

Alberta Stock Exchange
Trading Symbol - TCD.A
CUSIP No.65556104

